

# REFORMING CENTRAL GOVERNMENT: AN EVALUATION OF AN ACCOUNTING INNOVATION

Mahmoud Ezzamel, Cardiff University

Noel Hyndman, Queen's University Belfast

Åge Johnsen, Oslo and Akerhus University College of Applied Sciences

Irvine Lapsley, The University of Edinburgh

Version 3 5/7/2012.

Accepted for publication in *Critical Perspectives on Accounting*.

## ABSTRACT

This paper examines a significant accounting innovation in central government accounting – the introduction of Resource Accounting and Budgeting (RAB) in the UK. This innovation is studied through the lens of Rogers diffusion theory. The study setting is the Scottish Parliament. This research shows that, in terms of diffusion theory, RAB can be classified as an accounting innovation. However, the implementation of RAB is problematic. While the reform of the UK central government system was initially sought as a mechanism to enhance democratic accountability, this paper shows that RAB does not connect with parliamentarians. The introduction of RAB flows as much from a managerial agenda as it does from the aim of democratic accountability.

Keywords:

Accountability, Critical, New public management, Public sector

# REFORMING CENTRAL GOVERNMENT: AN EVALUATION OF AN ACCOUNTING INNOVATION

## 1. INTRODUCTION

The purpose of this paper is to study the adoption of Resource Accounting and Budgeting (RAB), which has at its heart a concentration on accrual accounting principles, as an innovation in central government accounting. This study focuses on UK policies and experiences. From 1866 to 2001, the UK central government had a cash system of accounting and budgeting. From 2001, the UK adopted a radical change to its central government accounting with the adoption of RAB; RAB entailing both accrual accounting and accrual budgeting, and aligning these to performance information where possible (HMT, 1994). This study seeks to extend our knowledge of the impact of the important innovation of RAB.

The move to RAB is often argued in terms of better accounting and improved management information for planning and control (Likierman, 2000). In the UK, HM Treasury's view is that such information will provide politicians, as well as managers within the public sector, with more appropriate information on how resources meet objectives as a basis for enhancing democratic accountability as well as providing better value for money for taxpayers. As a result, it is envisaged that within government a more strategic approach to planning public expenditure would emerge, with better information in resource allocation and on consumption and investment (HM Treasury, 2001).

In particular, this paper offers new insights into the use of government accounting (RAB) in the parliamentary context. The research results presented in this paper examine RAB in central government as part of the *modernisation* of UK governments by the New Labour administrations of 1997, 2001 and 2005. The specific context in which this accounting innovation is studied is the Scottish Parliament, which was established in

1999 as the UK central government sought to devolve its powers as part of its modernisation agenda. The Scottish Parliament is provided planning and financial reporting information using RAB, as HM Treasury deems the Scottish Government to be part of UK central government.

This paper addresses the research question of whether RAB enhances or not the activities of parliamentarians in their exercise of democratic accountability by examining the introduction of RAB in the UK through the lens of diffusion theory (Rogers, 1995; 2003). While there has been some research on accounting in government, there is no *conclusive* prior research in the literature on the impact of RAB on the activities of elected members of UK parliaments. Currently, the strongest available research evidence is from an earlier era (Likierman and Vass, 1984; Likierman and Creasey, 1985) and this highlights the limited expertise of parliamentarians in the scrutiny of financial information. However, this paper identifies more complex patterns of interaction between those in parliament and the use of governmental accounting. This research also extends our understanding of the diffusion of innovations, specifically in public sector settings, where the introduction of innovations has distinctive traits.

This paper is organised in a further four sections. First, this paper discusses the theoretical framework of the diffusion of innovations. Second, the research design sets out the study setting (the Scottish Parliament, which is obliged to use central government accounting practices by HM Treasury), sources of data and approach to data analysis. The results use Rogers diffusion model (Rogers, 2003) to examine the antecedents of this accounting innovation; the spreading of knowledge of central government accrual accounting; the manner in which the government sought to 'persuade' potential users of the merits of this innovation; the decision to adopt RAB; and the implementation RAB through the lens of the views of key actors in and around the parliament on this accounting innovation. Finally, we finish with discussion and our conclusion.

## 2. THEORETICAL FRAMEWORK: DIFFUSION

Diffusion theory has been used widely in accounting studies (see, for example, Malmi,1999; Bjornenak and Olson,1999), but predominantly in private sector settings. However, this perspective has been advocated as relevant and appropriate for the study of accounting innovations in public sector settings (Jackson and Lapsley, 2003; Lapsley and Wright, 2004). Diffusion of innovations is said to occur at the point of adoption of an innovation (Rogers, 1983; 1995; 2003).

The trajectory from innovation to diffusion is not automatic. There are significant environmental factors which may promote or inhibit the diffusion process. This is conventionally described as a five stage model which starts with the knowledge of the innovation (Rogers, 2003, p.170). However, it is evident from a close reading of the work by Rogers that the first stage is actually *'prior conditions'* which may determine the receptivity of any particular context to an innovation (Rogers,2003, pp169-170). At p.169, Rogers (2003) reflects on the diffusion process as one which occurs over time and consists of a series of different actions. On p.170, Rogers(2003) identifies the prior conditions which impact on the diffusion of innovations. Specifically Rogers' prior conditions are these: previous practice; felt needs or problems; innovativeness and norms in the social system. The second stage of Rogers Diffusion model centres on *knowledge* of the innovation in the decision making unit.(Rogers,2003,p37; p.170-173).The third stage of the diffusion model is *persuasion*. Rogers (2003, p.170, p.222) observed that the following factors impinge on the likelihood of being persuaded to accept a diffusion: the complexity of the innovation; the possibility of a pilot or trial test of the innovation; the goodness of fit of the innovation with the adopter's existing values; the perceived benefits to be derived from innovation; and the possibility of actually observing the results of the innovation (Rogers, 1995).These three stages of the diffusion model lead to Stage 4 – *the decision*. Rogers (2003, pp177-179) envisages that this may lead to a number of outcomes other than the straightforward decision to adopt the innovation. For example, the decision to accept may be subject to continuing approval, or immediate rejection may lead to later adoption or even continued rejection. Once the decision to adopt the innovation has been reached, the adopting organisation can proceed to Stage 5 -

**implementation.** However, implementation is an uncertain exercise and may prove complex and problematic (Rogers, 2003, pp179-188), in which opposition from groups who were not `innovators` may surface, and other actors in and around the scene of the adoption of the innovation may seek to alter, modify or `reinvent` the innovation. Finally, the Rogers (2003, pp189-194) has Stage 6 – **confirmation**. At this final stage, the adopters start to recognise the benefits of the innovation, may promote the innovation and are content with the innovation, such that it may be regarded as `routine`. This diffusion model is shown in Table 1 below.

Table 1: Rogers’ Model of The Innovation Diffusion Process

<b>Prior Conditions</b>	<b>Knowledge</b>	<b>Persuasion</b> -Perceived characteristics of the Innovation	<b>Decision</b>	<b>Implementation</b>	<b>Confirmation</b>
1.Previous practice	1.Recall of information	1.Relative Advantage	1.Adopt	1.Acquisition of information about the innovation	1.Recognition of the benefits of using the innovation
2.Felt needs or problems	2.Comprehension of messages	2.Compatibility	2. Continued adoption	2.Use of the innovation on a regular basis	2.Integration of the innovation into routines
3.Inventiveness	3.Knowledge and skill for effective adoption	3.Complexity	3. Reject	3.Continued use of the innovation	3.Promotion of the innovation
4. Norms of the social system		4.Trialability	4. Later Adoption		
		5.Observability	5. Continued rejection		

Source: Adapted from E. Rogers The Diffusion of Innovations. 5<sup>th</sup> Edition 2003

The diffusion of innovations is a process, rather than an act (Lapsley and Wright, 2004). Boundary spanning activity may be necessary by actors to bring inventions to the point of diffusion. This process may be shaped by internal and external, formal and informal, channels of communication (Swan and Newell, 1995; Clegg, et al, 1996) and can take different forms. There may be demand led diffusion of innovation by adopters, but it is also possible that suppliers will be promoting their particular innovation, regardless of perceived need by managers (Bjornenak, 1997). Within this process, interaction within networks or between suppliers and adopters may change or lead to further development of innovations (Bjornenak and Olsson, 1999; Geroski, 2000).

While the work of Rogers (1983; 1995; 2003) is widely regarded as seminal, his work and later adaptations (Johannessen et al, 2001) have been criticised on a number of counts. These models of diffusion processes have been criticised as being 'pro-individual', as opposed to being organisational or societal in approach (Abrahamson, 1991; Greenhalgh et al, 2005). It has also been suggested that models of diffusion often exhibit a 'pro-innovation' bias (Abrahamson, 1991; Greenhalgh et al, 2005). Other critics have suggested that these early models of diffusion need to be modified and extended for use in contemporary society (Chua, 1995; Briers and Chua, 2002). In particular, these critics are dismissive of the presumption that innovations are considered transferable to new contexts and settings, and often stress the need to examine the wider influences, social and technical, in examining diffusion (Chua, 1995; Briers and Chua, 2002). This critique is summed up by Greenhalgh et al (2005, p.48) :

“... (early models) took little account of the wider context (historical, political, ideological, organisational) in which adoption decisions were made or of the unintended consequences of innovation”.

These wider perspectives are taken into account in our examination of the nature of the innovation in UK accrual accounting system for central government.

One particular facet of diffusion theory which is pertinent to the present study is the idea of **compulsion**. The early writers on diffusion presume that there is an individual who acts rationally and exercises a conscious, free choice whether to adopt an innovation or

not. However, a stream within the diffusion literature has detected the potentially significant impact of compulsion in the adoption of innovations. The idea of externally induced innovation was advanced by Van de Ven (1986), who considered such induced innovations as potential valuable to successful organisations. However, he argued that induced innovation in poorly performing organisations may simply perpetuate poor performance. Another take on this is Abrahamson's (1991) idea of forced selection of innovations. This is the situation where the supplier can exert influence over all interested parties. These ideas resonate with the situation in the public sector where government perceptions of what constitutes the optimal policy choice may lead to induced adoption of accounting innovations in public organisations (Jackson and Lapsley, 2003; Lapsley and Wright, 2004). These observations on compulsion are particularly pertinent to the selection of the specific accounting innovation under study in this paper – HM Treasury's selection, adoption and promulgation of an accrual accounting system for central government which has been enforced on all parts of central government, including the Scottish Government.

### 3. RESEARCH DESIGN

#### *(a) The Study Setting: The Scottish Parliament*

The Scottish Parliament was established as a key plank of the incoming 1997 New Labour administration programme. It sought to address the issue of the so-called "democratic deficit", in which the majority of the Scottish electorate voted consistently against the majority political party at Westminster.

The existence of the Scottish Parliament is itself a manifestation of the 'New Labour' administrations' (of 1997, 2001 and 2005) focus on modernisation, which placed devolution as a priority in the overhaul of government machinery and accountability. The concept of devolution was that the government held reserve powers for policies to be handled centrally (foreign policy, defence, economics policy), with delegated powers devolved to the Scottish Parliament for key services (health, education, social services). Before the first devolved Scottish Parliament was elected in 1999, there was a distinctive

Scottish political machinery with a Secretary of State for Scotland and his ministerial team. They were appointed by the UK Prime Minister to take forward the ruling government's policies from Westminster, with civil servants (the Scottish Office) to oversee the implementation of these policy agendas. However, the pre-1999 arrangements did not meet the UK government's expectations of 'modernisation', there being a lack of political accountability with few Scottish pieces of legislation being debated at Westminster. Moreover, there were suspicions that civil servants at the Scottish Office had too much influence and limited public scrutiny of the policies and actions of the Secretary of State for Scotland and his team (Bogdanor, 2001).

However, the manner in which the Scottish Parliament has been substantiated also exhibits the hallmarks of the modernisation agenda. The consultancy and steering group, which articulated what the Scottish Parliament was to become, established key principles: power sharing (the people, the legislators, the executive); accessible, open, responsive practices with participative procedures; accountability to the people in Scotland, with an equal opportunities perspective (Scottish Office, 1998a). These key principles resonated with the New Labour Government's ideas of modernisation, particularly the emphasis on transparency, accountability and the responsiveness of the process of government to the needs of citizens and users of public services. The manner in which these founding principles have been enacted creates, *prima facie*, a Parliament, which we categorise as *deliberate* – with potentially interesting implications for the use of accounting information, as elaborated upon further below.

As part of the process of preparing for devolution, the then Secretary of State for Scotland initiated a series of consultation working parties. One of these groups was the Financial Issues Advisory Group (FIAG) which was given the remit to report on how best the new Scottish Parliament could exercise budgetary control. The FIAG observed that it would not be appropriate for the Scottish Parliament to merely adopt the existing practices of budgetary scrutiny of the UK Parliament at Westminster for the following reasons (Scottish Office, 1998b, p.28):

- there is a very limited time available for discussion of budget proposals on the floor of the House;
- the motions available do not allow the House of Commons to influence the budget proposals;
- the range of documents in which financial information is presented and the way in which such documents are considered by Parliament is less than satisfactory; and
- many MPs lack the time and the technical expertise required to understand the budget documents.

The FIAG recommended that the overwhelming aim of the budgetary system of the new Scottish Parliament was that of *transparency*: the management of finances in a way that is open, accessible and accountable to the people of Scotland (Scottish Office, 1998b, p.3).

The specific mechanism for the scrutiny of the budget, which was advocated by FIAG, was adopted by the Scottish Parliament. This was a three stage process:

Stage 1 – scrutiny of strategic priorities for expenditure;

Stage 2 - examining of the draft budget; and

Stage 3 – approval of the expenditure plans in the budget documents.

These three levels of scrutiny were designed to build on the distinctive nature of the Scottish Parliament. The Scottish Parliament is a uni-cameral body, with supporting business committees for each of the departments comprising the Scottish Executive which cover the spectrum of parliamentary business and which include members of all political parties (see Table 2). These committees fulfill a major function in the Scottish Parliament's discharge of its responsibilities (Lynch, 2001). They also present the possibility of a more *deliberate* consideration of Parliamentary business in a non-partisan setting - a setting which, *prima facie*, is favourable to the potential of accounting

informing the decision-making process. Within the Scottish Parliament’s budgetary scrutiny process, these business committees were charged with scrutiny of strategic priorities (Stage 1) and of the draft budget (Stage 2). The evaluations of these business committees on the budget at Stages 1 and 2 are collated by the Finance Committee of the Scottish Parliament for a debate in the Parliament itself. These activities are a prelude to Stage 3, the formal evaluation of the budget in the Scottish Parliament.

Table 2: Business Committees of the Scottish Parliament

Health
Children and Education
Enterprise and Lifelong Learning
Communities
Environment
Transport
Rural Affairs
European Funds
Local Government
Justice
Crown Office and Procurator Fiscal

Source: Scottish Executive, 2001

Furthermore, the specific political context of the Scottish Parliament is distinct from Westminster because of the election system: proportional representation rather than the “first past the post” election system at the UK Parliament at Westminster. There have been three elections for the Scottish Parliament in 1999, 2003 and 2007. There was no single party with an overall majority at any of these elections. In 1999 and 2003, the Scottish Executive was formed from the Labour and Liberal Democratic parties, a coalition government which had a clear majority. In the May 2007 election, the largest single party was the Scottish Nationalist Party (SNP), with 49 members. This was not sufficient for a majority (of the 130 Members of the Scottish Parliament), but none of the other parties were willing to form a coalition government with the SNP and there has been a minority government in Scotland since May 2007. The major focus of this study is on the experiences of the first two parliaments which were elected in 1999 and 2003, given the relatively short life of the present minority government.

### *(b) Sources of Data*

The Scottish Government uses Resource Accounting and Budgeting (RAB) to communicate its financial plans and performance to the Scottish Parliament and the Scottish people. The Scottish uses this form of accounting as it is considered a part of central government by HM Treasury, which has an overarching responsibility for financial regulation by central government departments. The impact of new forms of accounting in this parliament was investigated in a number of ways as a combined methods research strategy, using the unobtrusive measures of documentary records and observation (Bryman 2004, p.215), combined with semi-structured interviews (Bryman, 2004, p.329).

A crucial element of the Rogers diffusion model of innovations is the implementation phase (see Stage 5 in Table 1 above). This aspect of innovation is addressed by gathering information from the target recipients of this new RAB type information to determine if it informs their decision making or whether other sources of information are more important to them. A major focus of this paper is on the activities of the Finance Committee of the Scottish Parliament. This committee comprises Members of the Scottish Parliament (MSPs) from all major parties represented in the Scottish Parliament. This is the major mechanism by which the Scottish Parliament scrutinises, screens and analyses public expenditure (planned and actual) of the Scottish Government

As noted above, the Scottish Parliament has adopted a three-stage framework for budgetary approval which was recommended by the FIAG (Scottish Office, 1998b). In this framework, Stage 1 is a discussion of the Scottish Government's budget proposals for the year ahead ('The Annual Expenditure Report') with provisional plans for a further two years. The main discussion of the Scottish Government's future strategy and priorities at Stage 1 takes place in Subject Committees (see Table 2). Stage 2 of this process entails consideration of firmer spending plans by the Executive, which also includes Subject Committee scrutiny. It is the work of the Finance Committee to form an overview and report to Parliament on its deliberations. At this stage, the FIAG envisaged

that the Parliament would have the option of proposing an alternative budget, while the total budgeted expenditure remained the same as that of the Scottish Government budget. Stage Three, the final part of the process, was seen as the largely formal laying of the Scottish Government's budget before Parliament.

At Stage 1 and Stage 2, the main observation was conducted by a member of this team as a participant observer. This researcher was an expert adviser to the Finance Committee. This was in financial year 2000-2001. This gave detailed insights into the scrutiny and use of budgetary information and of the RAB innovation. Observation was also conducted by members of the research team who attended Finance Committee meetings. This data informed the analysis of the implementation stage of this innovation. The documentary evidence scrutinised included reports by the Finance Committee, by the Scottish Executive, internal memoranda and minutes of the Finance Committee. This documentary analysis was used across all stages of the diffusion of this innovation.

The interviews were held in the first (1999-2002) and the second (2003-2007) Scottish Parliaments. They were semi-directed with a variety of key actors in or around the Scottish Parliament: this included MSPs (from a variety of political parties), Conveners of Scottish Parliamentary Committees, the current expert adviser to the Finance Committee, clerks and researchers who supported the Parliament's Finance Committee, members of the Scottish Government responsible for the preparation of financial information, and Ministers in the Government with a particular interest in the RAB reforms (whether from the perspective of the size of their budgets, or because of involvement in the technical implementation of the RAB). In total, 24 interviews were held with key actors. These interviews lasted 60 – 90 minutes and the interviews were tape recorded and transcribed. The data from these interviews was used in the analysis of the implementation stage of this innovation.

#### 4. RESEARCH RESULTS: Diffusion Stage 1 - Prior Conditions

The major focus of this study is on the use of RAB information by elected members of parliament (and related groups, such as parliamentary advisors and researchers) and finance staff who produced government financial reports. As Rogers diffusion model indicates (see Table 1, Stage One, Prior Conditions), the receptivity to an innovation can be shaped by previous practices, and by felt needs of problems with existing practices. There have been earlier research studies of the use of accounting information in the era which preceded the implementation of RAB (Likierman and Vass, 1984; Likierman and Creasey, 1985), which support a shift to new forms of accounting to promote democratic accountability. A major observation from these studies was on the complexity of this issue:

“In any discussion of the expenditure information provided by the government, there is at least one aspect on which there is agreement. It is difficult. Difficult to compile and difficult to understand. In part, the difficulties are due to the size and complexity of the government’s financial transactions. In part to the requirements of users, who differ greatly in what they want and in their experience and expertise. But there are many who have said that difficulties also arise because of the way information is presented.” (Likierman and Vass, 1984, p.5)

This study revealed examples of Members of Parliament who observed that few of them understand ‘what is going on’ (Likierman and Vass, 1984, p.8) or who claimed that they carried ‘financial documents around in my briefcase unread for months’ (Likierman and Vass, 1984, p32). It also provided evidence of limited attendance by Members of Parliament at debates on financial matters, and government financial documents of that era that were viewed as rather dense and impenetrable (Likierman and Creasey 1985).

Accrual accounting in the UK central government (as part of RAB) has been implemented since financial year 2001-02. The details of the precise and distinctive form which this took are considered below, but first we briefly examine the process of diffusion, the early influences for change within the UK government system. This process has a long trajectory with many voices other than the key player (the HM Treasury which determines governmental accounting practice). This is important, as it

can be seen that the historical pressures for reform, from a variety of interested parties, have influenced the shape and form of the RAB as an innovation.

Before 2001-02, the cash basis of accounting had dominated central government practices since the Exchequer and Audit Act of 1866. This is a measure of how radical an innovation RAB is. The 1866 Act introduced a form of Appropriation Accounts which showed the resources voted (including supplementary votes, where necessary) to central government by parliament. While this distinctive form of accounting persisted until 2001, there were a number of attempts to adopt accrual accounting in UK central government. These early attempts are precursors of the recognition of the need for this innovation.

An early attempt to reform cash-based accounting was proposed by the Select Committee on National Expenditure (SCNE, 1918) in which it was critical of the Appropriation Accounts on a number of accounts: there was no valuation of assets or liabilities held; expenditure should be on actual expenditure and not costs. This was the first serious attempt at the replacement of cash accounting. It resulted in a pilot study of what was called commercial accounting in the Ministry of Defence, but this was never fully implemented (see Fletcher, 1989). The adoption of accrual accounting was confined to the naval dockyards (Watkins, 2007). A subsequent influential report, the Crick Report (1950), reviewed UK government accounting and recognised the need for accruals accounting, but only for trading activities. In part, this recommendation was based on what were considered to be insuperable practical difficulties in valuing government assets.

While these early attempts at reform focussed primarily on accrual accounting, subsequently pressures for change extended the nature of proposed reforms beyond accounting and financial information. These pressures can be seen as antecedents of RAB. Most importantly, these early deliberations were important elements in shaping what RAB would be, and can be seen as a, admittedly somewhat protracted, process of working towards what the innovation should be (Geroski, 2000). In 1986, the National

Audit Office (NAO) presented a case for the reform of government accounting to the Committee of Public Accounts (CPA) at Westminster. Particular recommendations made by the NAO included asset accounting, which it argued would lead to improved information on assets which would help in the control and use of resources. In addition, it was suggested that the provision of this information would enhance public accountability on the deployment, stewardship and control of assets (NAO, 1986, p.3). The NAO also considered that Members of Parliament and other potential users of financial reporting by government needed to see clear information on the aims and objectives of activities, as a basis for judging efficiency and effectiveness. These attributes of financial reporting were endorsed by the CPA (CPA, 1987), particularly the need for information on both assets held and the aims and objectives of public expenditure. These prior conditions are receptive to improving the quality of financial information made available to elected members of parliament- a favourable precursor to the development of RAB, with performance information and democratic accountability important strands of these debates and exchanges.

#### 4. RESEARCH RESULTS: Diffusion Stage 2 - Knowledge of the Innovation

The knowledge of a specific innovation has to exhibit sufficient skills and expertise for the innovation to be used (see Table 1, Stage 2, Knowledge). However, the debate over accrual accounting in central government has primarily been over technical and professional issues around the applicability of accrual accounting. For example, the introduction of accrual accounting as an accounting innovation in the public sector is seen as an essential element (Guthrie et al, 1999; Christensen, 2002; Paulsson, 2006) of NPM (Hood, 1991; 1995) reforms. The embedded nature of accrual accounting in the early adoption countries, such as Australia and New Zealand, has led to observations on the *inevitability* of the widespread diffusion of this accounting practice as an appropriate innovation (Carlin, 2005). Policy makers, internationally, regard accrual accounting in the public sector as a self evident reform, but its adoption has often proved problematic in practice (Lapsley, Mussari and Paulsson, 2009). Indeed, critics of the adoption of accrual

accounting in the public sector suggest that it has not yielded the benefits proclaimed by its proponents (Wynne, 2007; 2008).

The particular focus of this paper is on the introduction of accrual accounting in **central government**. There are proponents of accrual accounting in central government who view it as a positive force for improved transparency in public finances (Cangiano, 1996). In contrast, there is a suggestion that the advancement of the case for accrual accounting by central government has given an opportunity to vested interests – management consultants and leading international accounting firms – to gain commercial opportunities (Christensen, 2002; Christensen and Parker, 2010). There is also evidence from the early adopters of accrual accounting in central governments that this information is of use to *management* in central government accounting departments (Newberry and Pallot, 2004; Paulsson, 2006). In a study of accrual accounting in New Zealand central government it was found that the use of this information resulted in the erosion of core activities within these departments (Newberry and Pallot, 2004). Another early adopter of accrual accounting by central government was Sweden. Paulsson's (2006) study of Swedish central government accounting revealed that a primary use of accrual accounting information was by government departmental managers. These findings on the use of accrual information are consistent with the adoption of forms of accounting from the managerial agenda of NPM.

Within the UK, the adoption of accrual accounting has attracted considerable interest. There has been research on issues of valuation (Heald and Georgiou, 1995) and on the quality and transparency of government financial reports in the new world of accrual accounting (Heald, 2005). In an early study, Mellett (2002) challenged the ability of the new governmental accounting system to provide meaningful information. An important study by Connolly and Hyndman (2006) showed that government accountants experienced substantial difficulties in producing the new forms of governmental accounting information. This study raises serious questions about the capacity of governments to produce meaningful financial reports. Also, a study by Ezzamel et al (2005a and 2005b) on the use of accrual accounting within the elected assembly in Northern Ireland raised doubts about the appropriateness of accrual information to

intended users as part of the new government accounts. However, these findings are attenuated by the political context, as that study was undertaken at a time of suspension of the elected assembly.

Overall, the knowledge of the possible benefits of accrual accounting was widespread in the context of international scholarly debate. Much of this positioning was fairly technical and not informed by evidence based research. While the prior conditions (Stage 1 –see above) that were favourable to the emergence of an accounting innovation, such as RAB, the debate over accrual accounting was narrower with little debate over issues of democratic accountability.

#### 4. RESEARCH RESULTS Diffusion Stage 3 - Persuasion

Despite the above debate on the merits or otherwise of accrual accounting, HM Treasury chose to adopt this accounting practice for UK central government. However, while the lively scholarly debate did not appear to influence HM Treasury, the evidence presented under Stage One, Prior Conditions, did. Furthermore, the process of persuasion had a particular managerial, rather than a predominantly democratic accountability, emphasis.

The process by which UK policy documents are open for consultation is three fold: (1) the publication of a discussion document (described as a 'Green Paper'), (2) the articulation of the government's plans in a policy document (described as a 'White Paper') and (3) the approval of an Act of Parliament to authorize the policy. In the discussion paper which announced the government's **intention** to reform central government accounting, the following definitions were set out:

**“Resource accounting** is the use of accruals accounting techniques for reporting on the expenditure of UK central government, comprising departments and their executive agencies including trading funds, and a framework for analysing expenditure by departmental objective, relating to outputs wherever possible..... **resource budgeting** is the planning and controlling of public expenditure on a resource accounting basis” (HMT 1994).

This form of accounts comprised five schedules: 1. a Summary of Resource Outturn; 2. Operating Cost Statement; 3. Balance Sheet; 4. Cash Flow Statement; and 5. Statement of Resources (see Annex B, HM Treasury, 1995). The final of these schedules, the Statement of Resources, contains an analysis by aims and objectives. This innovation clearly reflected the earlier parliamentary debates and reports on this subject. Therefore, the definition of RAB can be seen as an innovation which is the crystallization of parliamentary debates over many years. These definitions did not change during the period of consultation.

However, the interpretation of what RAB might achieve became a construct in support of government managers. This accounting innovation was expected to reduce the need for government borrowing by identifying under-utilised assets. Also, at the level of central government, the implementation of RAB was expected to lead to a more systematic approach to capital accounting with more meaningful comparisons both across the public sector and with the private sector. It was also anticipated that central government would be better informed in planning for expenditure, with a better control of public expenditure because of the improved information. For government departments, those who designed the new RAB system of accounting envisaged that departments would have better information on the cost of services provided and the resources required to meet their objectives. It was envisaged that RAB would mean that government departments would be able to plan internally and be controlled externally on the same basis, with a shift in focus to services and outputs rather than inputs.

However, all of these observations have a distinct **managerial** emphasis consistent with an NPM emphasis (Hood, 1991; 1995): the HM Treasury (1994) policy document was silent on the implications for the electorate and for elected representatives to UK parliaments. By 2001, the above stated gains of RAB adoption were enhanced by three further claimed advantages: (1) better information on how resources are used to meet objectives and whether taxpayers are receiving value for money, (2) *more and better-focused information resulting in enhanced accountability to parliament* and (3) a

contribution to the ‘modernising’ government agenda (HMT, 2001). This latter agenda for RAB is the particular focus of this research, although it is important to note the observation that this specific reform was driven in its initial stages by managerialism and not by parliamentary accountability.

#### 4. RESEARCH RESULTS Diffusion Stage 4 – The Decision

This revolution in accounting practice is also a manifestation of the modernisation agenda in government. RAB was initiated under the pre-1997 Conservative administration. However, when the New Labour administration came to power in 1997, it did not reject RAB as a product of a prior political regime. Instead, it saw the potential for systems of resource accounting to enhance its key concepts of accountability, of transparency, and, in the process, of government becoming more efficient and business-like. This thinking applied to the implementation of RAB across the UK. RAB was not a specific component of the devolution agenda and the creation of a Scottish Parliament, although it became part of the enactment of devolution, which is the locus of our study of this accounting innovation. This was a clear ‘adoption’ decision with no opposition and no thoughts of non-implementation or delay. Therefore, while earlier thinking had hinted at a democratic accountability dimension to the decision to design, adopt and implement Resource Accounting and Budgeting, this was a less important feature of the adoption decision.

#### 4. RESEARCH RESULTS: Diffusion Stage 5 - Implementation

It has been noted above that Rogers observed that the implementation phase of the diffusion model had the potential to be problematic (Rogers, 2003, p179-188). A key factor in successful implementation is that the innovation is understood and used. We noted earlier that studies of elected members of Parliament were not using the financial information which they received under the former financial regime (Likierman and Vass, 1984; Likierman and Creasey, 1985) – see the discussion of Stage 1 (Prior Conditions) of the Diffusion of RAB. Therefore to address this most challenging aspect of the diffusion model, we have examined a variety of sources of evidence to determine if key actors in

and around the Scottish Parliament use and understand financial information prepared on a RAB basis.

This part of research findings is analysed in two phases. In the first phase, we analyse the work of the Parliamentary Committees in the Scottish Parliament in their scrutiny of the budget setting process. This analysis is based on documentary evidence and observation of committees in action. This analysis gives us insights into how parliamentarians use financial information. In phase two, we examine the impact of RAB through the lens of reflections by key actors in and around the Parliament, based on an analysis of interviews with them.

While the adoption of RAB meets the technical definition of a diffusion, in that the innovation was adopted (Rogers, 2003), the research results from this paper raise some fundamental questions of how meaningful this diffusion was. The process of designing RAB did draw on previous government and parliamentary reports. There was a consultation process. There were trial runs with old and new accounting systems operating in parallel. However, on the face of it, this innovation did not connect with the focus of our study – parliamentarians. RAB had started life as an NPM type managerial reform. It was latterly re-branded as a useful tool for parliamentarians. The evidence which follows reveals a disconnect between RAB and the key actors in this parliament.

### *(a)Phase One : Initial Analysis of The Use of RAB*

#### **(i) Stage One Analysis**

This study focuses on the principal budget document (the ‘Annual Expenditure Report’ of the Scottish Government) ‘*Investing in You*’ (IiY) (Scottish Executive, 2000a). This was the first time the Finance Committee and the other Subject Committees of the Scottish Parliament had scrutinised such a document as part of the budgetary framework. The Subject Committee reports from the Stage 1 evaluation of IiY document can be grouped in two broad categories. The first group of comments relates to specific policy issues and

settings, which exercised the minds of these committees. For example, the Education Committee expressed concern over the funding for an education research facility; the Justice and Home Affairs Committee made comments on the prison service and the legal aid system for citizens. However, the second group of comments were more focussed on the financial frameworks as a system (see Table 3). This resulted in a number of observations being made.

Table 3: Subject Committee Comments on Stage 1 Planning Documents

<p><b>1.</b></p> <p>1.1</p> <p>1.2</p>	<p><b>Nature of Information</b></p> <p>A need for both cash and real terms data.</p> <p>Need for evaluations of objectives and targets against performance.</p>
<p><b>2.</b></p> <p>2.1</p> <p>2.2</p>	<p><b>Scrutiny Process</b></p> <p>Limited time to scrutinise data.</p> <p>Omission of latest information.</p>
<p><b>3.</b></p> <p>3.1</p> <p>3.2</p> <p>3.3</p>	<p><b>Lack of Transparency</b></p> <p>Inadequate explanations of underspends and end year flexibility.</p> <p>Inadequate explanations of significant changes to budget.</p> <p>Efficiency savings are not transparent</p>

Source: Compiled from Subject Committee responses to *Investing in You*, Scottish Executive, 2000a.

There were committees which expressed the need for both cash and real terms data (Enterprise and Lifelong Learning; Social Inclusion, Housing and Voluntary Sector; Health and Community Care). Also, there were committees who sought better explanations of underspends and ‘end year flexibility’ (Enterprise and Lifelong Learning; Justice and Home Affairs; Social Inclusion, Housing and Voluntary Sector; Transport and the Environment; Health and Community Care), and also better explanations of significant changes to budget (Enterprise and Lifelong Learning; Justice and Home Affairs; Education, Culture and Sport; Transport and the Environment, Health and Community Care). The view was also expressed by committees that efficiency savings expected are not transparent (Education, Culture and Sport; Transport and the Environment; Health and Community Care). Also, some Committees commented on the

omission of the latest information (Enterprise and Lifelong Learning; Education, Culture and Sport) and of the limited time available to scrutinise data (Justice and Home Affairs).

There were also committees concerned with the need for evaluations of objectives and targets against performance (Education, Culture and Sport; Transport and the Environment). The Equal Opportunities Committee had only one general comment to make, which reinforces the above specific comments made by the other committees. It identified the need for a robust and public process of measuring and reporting on performance. As noted above, a key element of any such performance assessment system is the quality of objectives and targets. This issue is taken up, next.

In their discussion of the objectives and targets of the Scottish Government's Annual Expenditure Report (iiY) the Subject Committees focussed on the specific programmes for which they were responsible. There were some positive comments made. For example, the Enterprise and lifelong Learning committee considered that the aims and objectives in iiY were consistent with lines of responsibility. The Transport and Environment Committee considered the objectives of its part of the annual expenditure report as measurable and meaningful. However, these were exceptions. The Equal Opportunities Committee described the target for the Equality Unit (to submit its annual report by April 2001), as weak and generally expressed the need for more focussed results-driven targets. This criticism is reinforced by the comments of the Justice and Home Affairs Committee which stated the objectives within its part of the annual expenditure report exhibited a wide range – from the clear and specific to a few vague and unhelpful objectives with arbitrary or immeasurable targets.

There was also criticism, not only of the manner of presentation of objectives and targets, but also of a lack of information on correct baselines and rate of progress which made it difficult to assess how stretching or achievable targets were (the Education, Culture and Sport Committee). This latter Committee also commented on the risk of displacement (see Lapsley, 1996) by focussing on quantifiable indicators at the expense of the more difficult to define qualitative measures. The comment made by the Education Committee

on the need for realistic baseline information against which targets could be assessed was also made by the Committee on Social Inclusion, Housing and Voluntary Sector, by the Transport and Environment Committee and by the Health and Community Care Committee.

Indeed, the Health and Community Care Committee had most to say of all the committees on this matter. This committee expressed the view that, for health and related expenditure, objectives in liY were focussed on inputs rather than services or outcomes, and that aims and objectives were not sufficiently clear and unambiguous, with public understanding of the significance of the impact of the specific objectives and targets an impossibility. The Health Committee went further, by stating that the targets for health and related expenditure in liY were limited, partial, input-related, inappropriate to a long-term perspective, incomplete, unrealistic, unrelated to the budget and confusing on responsibility for targets given.

While previous studies of parliamentarians have shown a lack of understanding and expertise in the use of public finance planning documents, the above evidence reveals a relatively ‘sophisticated’ interrogation of this strategic planning document for this parliament. This particular pattern of ‘relative sophistication’ is within the distinctive context of Members of Parliament acting in concert with specialist budget advisers, which contrasts with previous studies which have focussed on one-to-one interviews with MPs.

## **(ii) Stage 2 Analysis**

The key document in Stage 2 of the 2000/01 budget cycle was the Scottish Government’s budget *Making a Difference* (Scottish Executive, 2000b). At the Finance Committee, this document was reviewed in the light of comments made by specific subject committees. There was a general consensus that the presentation of ‘*Making a Difference*’ was better than ‘*Investing In You*’. However, there were numerous observations where Subject Committees had difficulties (see Table 4).

Table 4: Subject Committee Comments on Stage 2 Planning Documents

<b>1. Scrutiny Process</b>
1.1 Need for articulation and alignment of the ‘strategy setting’ process and the budgeting process.
1.2 Continuing concern over the use of the targets.
<b>2. Lack of Transparency</b>
2.1 Need for more detailed information to make sensible comparisons.
2.2 Evaluation of the impact of Public-Private Partnership projects not clear.
2.3 Need to segregate RAB effect of capital accounting adjustments and cash spend.
2.4 Not possible to assess cross-cutting policies.
2.5 Need for better, more transparent policy-led budgets.
2.6 Impossible to relate in-year increases to policy and outcomes.
2.7 Headline budget announcements misleading.

Source: Compiled from Subject Committee responses to Scottish Executive, 2000b, *Making a Difference*

These committees expressed a general need for articulation and alignment of the ‘strategy-setting’ process and the budgeting process (Equal Opportunities, Rural Affairs). Moreover, it was claimed that the equal opportunities strategy arrived too late for comment (Equal Opportunities Committee), Prison Service targets were not published in time for budget discussions (Justice and Home Affairs), and the Rural Affairs Minister intended to supply information to this Committee after Jan 2001 – too late to inform the budget process. There was also a continuing concern over the use of targets. Committees commented that there was a need to specify information in targets and outcomes more precisely e.g. against a baseline figure. (Enterprise and Lifelong Learning; Health; Transport; Justice and Home Affairs; Social Inclusion). In addition some committees saw a need for Level 3 (i.e. more detailed) information to make sensible comparisons (Local Government; Health). The evaluation of the impact of PFI/PPP projects on budgets was not clear, and required clarification (Transport; Health). Furthermore, the introduction of RAB distorted comparisons between ‘*Making a Difference*’ and ‘*Investing In You*’. There was a need for more explanation in the view of a number of committees (Health, Social Inclusion; Transport). Indeed, some committees saw a need to segregate the RAB effect of capital accounting adjustments and cash spend (Health; Social Inclusion). It was also difficult for committees to relate expenditure plans

to policies. For example, one committee observed that it could not assess ‘cross-cutting’ policies from ‘*Making a Difference*’ (Rural Affairs) and identified a need for a better, more transparent operation of policy-led budgets (e.g. spend on health promotion, social inclusion, national framework on health policy).

These difficulties were further complicated by the impact of the increases in budgets as a result of Whitehall’s Comprehensive Spending Review on the document ‘*Making a Difference*’. These welcome additional funds created problems because it was not possible to relate the additional funds to policy and outcomes, and the use of headline announcements had the effect of a double/triple accounting (for example, the difference in expenditure between Years 1 and 3 may be announced, but this may ignore expenditure in Year 2 and just focus on the difference between Year 1 and Year 3). This is exacerbated **both** by MSPs who are used to thinking in terms of ‘annuality’ and by the new government policy of switching to three year budgets. Finally, the local government committee challenged the process of budgeting, particularly the use of the efficiency assumption. It favoured attacking efficiency through the audit process.

### **(iii) Stage 3 Deliberations**

The outcome of the Stage 1 and Stage 2 deliberations by the Subject Committees of the Scottish Parliament and by the Finance Committee of the Scottish Parliament was Stage 3: a budget report was laid before Parliament (Scottish Parliament, 2000). This endorsed the budget proposed by the Scottish Executive. It also expressed concern about the difficulties of making sense of RAB-type information, given its novelty, and over the difficulties of disentangling the affects of in-year budgeting adjustments arising from the Comprehensive Spending Review by the Treasury. This report also welcomed the ‘*Making a Difference*’ document as a significant improvement on ‘*Investing in You*’. However, many of very specific points which were made by Subject Committees do not feature in this report. Also, only marginal changes to planned expenditure were made as a result of this scrutiny and the right to recast the budget was not exercised by the parliament.

Overall, this analysis of the use of RAB at the Scottish Parliament reveals significant difficulties. In particular, there are major concerns over the lack of *transparency* in the parliament's budgeting arrangements. There are major problems over the operationalisation of strategic priorities in a way which can be detected in financial plans. Concerns over a proliferation of targets and difficulties in relating overarching policies to difficulties of the budgetary scrutiny system in the first parliament (1999-2002) were repeated in the second parliament (2003-2007) as the budget adviser to the second Scottish Parliament has demonstrated (Midwinter, 2005). However, this analysis also reveals that parliamentarians have particular interests in information on activities (scope, volume) and whether they achieve their objectives or targets. This manner of thinking is consistent with the ideas behind RAB, as elaborated upon in parliamentary committees in the debates which were the antecedents of the RAB innovation (see section 4 above).

*(b)Phase Two : An Analysis of Reflections on The Use of RAB*

This study examined the RAB innovation in the first and second Parliaments, by talking to key actors (providers of accounting information within the Scottish Government; auditors of the accounting information supplied to the Scottish parliament; advisers (as expert adviser, clerks and researchers) to Members of the Scottish Parliament and Members of the Scottish Parliament and Ministers within the Scottish Executive). This revealed that providers of RAB documents are sceptical about the capability of MSPs to interrogate such information. For example, the following quote from a senior civil servant expresses the frustration of the providers of this information:

"There is a very large volume of information. We seem to be in a position where we have to produce printed publications every time we want to provide information. We do seem to be tied in too much to producing loads of printed publications which very few people look at."

This civil servant proceeded to challenge the capabilities of parliamentarians:

“ The other difficulty we have is, I think, the capacity of Parliament and the committees to use the information is really very limited. They are demanding more, but we don't really see them making much use of it. But I think that is more an issue of their capacity to use it rather than it's us not producing enough.”

Although this civil servant did concede that there may be an element of culpability attached to his colleagues as those who design and produce financial documents for parliament:

“The continuing question mark is whether we are producing it in the most useful format. We are continuing to struggle with that. The bit of it that I find a bit hard is that the accounts which we now produce compared to previously are extremely informative and there are all sorts of things in them, and as far as I can tell, nobody looks at them.”

The Convenor of a Parliamentary Committee observed that she and her committee members had got some improvements made, but observed that there is ‘still a long way to go’. This Convenor observed that ‘the accounting information at the top level is very good, but it is more difficult to get relevant information when you drill down for more detailed figures’. Another senior politician concurred with the view that accounting information had improved a lot, but still found it difficult to track expenditure in the financial documents. Indeed, expert advisers to Members of the Scottish Parliament express the view that only a minority of MSPs can challenge the financial information in a meaningful way.

Furthermore, many MSPs have faced ‘information overload’ from electronic mail, documents and reports of the Scottish Parliament, information from pressure groups) and the RAB-type information can get lost in this, as the quote from a Clerk to the Finance Committee illustrates:

“.. at the moment (the Government) is producing about twelve different documents over the year. Some of them are the size of a telephone directory. It is very difficult to know what to do with it. And the Parliament has been overwhelmed by financial information.”

Stage 3 of the budgetary process - the laying of the budget of the Scottish Executive before the Scottish Parliament has become entirely formal with limited or no debate. One former Finance Minister reflected on the budgetary process, as follows:

“It is very, very difficult for backbenchers and MSPs to really engage in a big way in the budget process. And I am not sure how they can do that. This is one example where I am pretty sure that the kind of massive numbers that backbenchers, MSPs, committee members get, must be just an enormous burden to try to work through. I think if you asked backbenchers and MSPs they would probably still feel a bit dissatisfied with the level of influence they have on the budgeting process. I don't think that there is any malice in that. I think the negotiation of the budget is just a nightmarish process as it involves the Parliament and the Ministers, so I suppose they probably feel that they only really check that there is nothing fraudulent, and also maybe influence a bit at the margins. And that is probably fair. I think this is partly to do with the volume of the information and the complexity of it.”

Most of the scrutiny of the Scottish Government's spending proposals takes place within the Subject Committees, but they have experienced frustration, and their impact in terms of changing the budget has been slight. The Finance Committee is the key repository of expertise in challenging the Scottish Government spending proposals, but it has never exercised its right to recast the Scottish Government's budget proposals. Most MSPs interviewed expressed a reluctance to comment on specific accounting mechanisms such as RAB, with many unable to define it or explain what its intended effects were.

However, there is a strong view across members of the Finance Committee that targets, objectives and outcomes are crucial elements of modern financial reporting. This can be seen from the repeated references to more precise information not just on objectives and targets, but on outcomes and the relationship of these three elements of financial planning. One MSP insisted that he was in parliament because of his concern with the quality of public services and how this affected his constituents. This is a perspective which is much more about public service outcomes than statements of financial inputs. This raises fundamental questions about the relationship of levels of funding in particular services with the quality of that service provision.

This intuitive feel for what counts in the minds of politicians was expressed in the following terms by a researcher with the parliament, who advised members on economic and financial matters:

“There are members of the parliament who are interested in financial issues. They range across all the parties. In fairness, most members are bored by this. But they are more interested in the processes underneath what the organisation actually achieves. They are more interested in the outputs and outcomes rather than the inputs.”

In this sense, the MSPs are very knowledgeable on the intentions of RAB, if limited in their knowledge of its technical construction. This raises questions over the capacity of finance specialists to deliver the kind of information which parliamentarians need to discharge their democratic responsibilities. In this sense, the RAB innovation can be seen as managerial in intent and execution, with the needs of parliamentarians sidelined. This outcome is exacerbated by the decrying of parliamentarians as having ‘limited capacity’ to understand accounting information, when they actually have a very clear idea of the kinds of information which they need.

#### 4. RESEARCH RESULTS Diffusion Stage 6 – Confirmation

The UK government continues to use RAB. It has become **routine** (Rogers, 2003, p.180) By this measure it can be argued that there is confirmation of the success of this innovation. However, it has been shown above that the apparent benefits of this system are contested, in particular by parliamentarians. Although it is evident that members of HM Treasury are content to act as advocates for this system, despite these apparent failings (Watkins, 2007).

#### 4. RESEARCH RESULTS: AN OVERVIEW

This study has used the diffusion model of Rogers (1995; 2003) to examine the introduction of an accounting innovation – RAB. This model has six stages. The discussion of each of these six stages in the diffusion of RAB is complex and their

examination is necessarily complicated. However, an overview is offered here (see Table 5) which reveals the extent to which the diffusion model offers explanatory power.

Table 5: An Overview of the **Diffusion of RAB**

Attribute	Comment
1.Prior Conditions	There was disquiet over the efficacy of previous systems of central government accounting and specific recommendations for reform consistent with RAB.
2.Knowledge	The adoption of accrual accounting by central governments became an important feature of NPM reforms. This debate did not touch on democratic accountability
3.Persuasion	In the UK there is a very distinct process of consultation which was followed in this case. However, the strength of the government convictions did not allow for significant change to its proposals. At this point considerations of democratic accountability emerged as part of government thinking.
4.Decision	The decision to adopt RAB was a political decision as part of an attempt to position the government as modern.
5.Implementation	The present system of RAB is too complex for parliamentarians who struggle to make effective use of it. But parliamentarians have clear ideas of what they do want.
6.Confirmation	RAB continues in use. It has become routine. It has advocates within HM Treasury.

## 5. CONCLUSION

This paper investigated a major accounting innovation - the reform of UK central government accounting - which entailed the implementation of accrual accounting in central government. The specific form of accrual accounting studied was Resource Accounting and Budgeting (RAB) – the UK version of accrual accounting for central government. This model of accrual accounting entails the conventional approach of including asset valuations and depreciation, but it also includes distinctive features,

notably the inclusion of statements which analyse aims and objectives against resource use. This distinctive form of accrual accounting was investigated in the Scottish Parliament, which was created as part of the UK government's modernisation policy of devolution of powers – specifically to Scotland, Wales and Northern Ireland. As part of this modernisation, the executives and elected bodies of Scotland, Wales and Northern Ireland continued to be regarded as part of central government for accounting parties and have all been required to implement Resource Accounting and Budgeting.

This study examined the implementation of RAB in Scotland over the six stages of Rogers diffusion model (see table 1) from the perspective of democratic accountability. The *implementation* stage of these phenomena was of particular interest. This tested whether the innovation of RAB worked or not. This was investigated in two phases: first, there was scrutiny of budgetary documents and observation; second, there was further scrutiny of RAB, from the perspective of actual and potential users of this information. Regarding the first part of this study, the focus was on documents in the public domain. However, this study had access to detailed scrutiny of these budgetary documents, which is not in the public domain. This particular approach is distinctive, with interesting results. It reveals how Members of the Scottish Parliament scrutinised these financial documents as part of the activities of business committees of the Scottish Parliament with key responsibilities for the discharge of budget scrutiny.

Studies of RAB's predecessor, a cash-based system, suggests that Members of the UK's Westminster Parliament were disconnected from the financial scrutiny process, that they were ill at ease with the financial and planning documents, and that they made little use of them. There is less direct evidence available on the new RAB system, other than studies of the elected assembly in Northern Ireland (Ezammel et al, 2005a; 2005b). While the Northern Ireland results are interesting – they point to two classes of political users (insiders and outsiders) – they are limited by the fact that, for most of the period studied, the Northern Ireland Assembly was suspended because of political conflict.

The findings of the present study corroborate, but also contradict, these earlier studies. There is evidence that Members of the Scottish Parliament are not confident in the handling of RAB-type information. However, in part this is a reflection of the sheer volume of information to which these Members of Parliament are exposed – information overload. While the formal laying of the budget before parliament is a purely formal exercise – almost a legitimating ritual – there are interesting findings around the earlier stages of the budget process which contrast with this legitimating perspective. In particular, while the experiences of the Subject Committees in the scrutiny were frustrating, this was mainly because of the inability of committees to influence the budget. This actual circumstance reflects the incremental nature of budget setting in the public sector, in which all of the focus is on the size of the increment or ‘growth’ monies and the prioritisation of these resources. However, the concept of RAB is not just to implement accrual accounting; there is also the distinctive information on aims and objectives for services. This study’s examination of *the processes* of scrutiny of planning documents revealed interesting responses. While acting in concert, these MSPs displayed a high level of understanding of what RAB was seeking to achieve. They exhibited major concerns with the setting of targets, their relationship to policies and wider objectives and resources devoted to thematic priorities. This corroborates the findings of interviews with individual Members of Parliament.

As noted above, the theoretical lens used in this study is the idea of the diffusion of innovations. This framework is most closely associated with the work of Rogers (1983; 1995; 2003). The Rogers’ model has attracted criticism, but has been defended as a widely used model with longevity (Rogers, 2004). This model and those derived from it, have been criticised on its ‘pro-individual’ and ‘pro-innovation’ bias (Abrahamson (1991) and Greenhalgh et al, 2005). This criticism holds true for RAB and the specific context studied in this paper, in which the complexity of the study setting and the presumption of the suitability of RAB are evident. It has also been suggested that the wider social context, including historical, political and ideological reasons for innovations are not considered in the Rogers’ model (Chua, 1995; Briers and Chua, 2002; Greenhalgh et al.,2005) and these merit consideration in studies of diffusion. This

perspective has been deployed in this paper, to good effect. Also, the compulsory, coercive aspect of innovations, especially accounting ones, in the public sector is another important strand of public sector innovation (Jackson and Lapsley, 2003; Lapsley and Wright, 2004) and this has been shown to be the case in this study.

One particular outcome of this study is the nature of RAB type information and whether this promoted transparency in public finances. While transparency is a major objective of the Scottish Parliament's public finances, there are a number of aspects of these findings which suggest that there is scope for refining what transparency is and might become. In the first instance, the mere release of additional information (in this case, accrual information) is not sufficient to convey transparency. Second, the capacity to interrogate these publicly available financial documents should not be restricted to considering experts (whether described as 'gatekeepers' or insiders), but also to actions of Members of Parliament, in concert. Third, the analysis of evidence which is not in the public domain, the comments of Subject Committees of the Parliament on budget documents over the planning cycle, reveal that this group of potential users is most confident in handling the wider RAB-type information on targets and objectives. Fourth, the idea of transparency is context-specific. The particular characteristics of these budgetary documents created a demand on the part of these parliamentarians for more refined information which related strategies to baseline and incremental (growth) expenditure. These observations underline the need to shift from a uni-dimensional concept of transparency to a more complex elaboration of what transparency means.

Finally, the RAB system implemented in the UK is a radical innovation, i.e. a dramatic departure from practices which persisted from the mid-19th century. It is also distinctive and novel in its content. While the RAB innovation was the outcome of lengthy deliberations and consultation, there is evidence in this paper, particularly from government policy documents, which suggest that a major motive for this innovation was managerial. We do not wish to overstate the strength of this evidence. However, any privileging of the managerial interest group may have attenuated the position of parliamentarians. The literature suggests elected members of parliament have limited

financial expertise. This study suggested the RAB innovation was flawed with respect to parliamentarians, because, while, on the face of it, this form of accounting went beyond narrow financials, it failed to represent the parliamentarians' interest in issues of activity, outcomes and of quality of service within its financial framework in a manner in which they could utilise this information effectively.

## REFERENCES

- Abrahamson, E., (1991) Managerial fads and fashions: the diffusion and rejection of innovations, *Academy of Management Review* Vol. 16, No.3, July pp 586-612
- Bogdanor, V. (2001), *Devolution in the United Kingdom*, Oxford University Press.
- Bjornenak, T. (1997) Diffusion and Accounting: The Case of ABC in Norway, *Management Accounting Research*, Vol. 8, No.2, pp3-17
- Bjornenak, T and O. Olson (1999) Unbundling Management Accounting Innovations, *Management Accounting Research*, Vol. 10, pp325-338
- Briers, M. and W.F.Chua (2002) The role of actor-networks and boundary objects in management accounting change: a field study of an implementation of activity based costing, *Accounting Organizations and Society*, Vol.26, pp237-269
- Bryman, A. (2004) *Social Research Methods* (2<sup>nd</sup> edition), Oxford University Press.
- Cangiano, M. (1996) "Accountability and Transparency in the Public Sector: The New Zealand Experience", International Monetary Fund, Working Paper, WP/96/122, November.
- Carlin, T., (2005) Debating the impact of accrual accounting in the public sector, *Financial Accountability & Management*, Vol. 21 (3) , pp309-336
- Christensen, M., (2002) Accrual Accounting in the public sector: the case of the New South Wales government, *Accounting History*, November 2002, Vol.7 No.2, pp93-124
- Christensen, M., and L. Parker (2010) Using Ideas to Advance Professions: Public Sector Accrual Accounting, *Financial Accountability & Management*, Vol.26 (3) pp246-266
- Chua, W.F. (1995) Experts, networks and inscriptions in the fabrication of accounting images: a story of the representation of three public hospitals, *Accounting, Organizations and Society*, Vol.20, pp111-145
- Clegg, S.R., Hardy, C., Nord, W.R. (1996) *Handbook of Organization Studies*, Sage.
- Committee of Public Accounts (CPA) (1987) *Financial Reporting to Parliament*, Eighth Report, House of Commons, Session 1986-87, HMSO.
- Connolly, C. and N. Hyndman (2006) The actual implementation of accruals accounting. Caveats from a case within the UK public sector, *Accounting Auditing and Accountability Journal*, Vol.19, No 2, pp272-290
- Crick Report (1950) Report on Governmental Accounting cited in C. Fletcher (1989) *Governmental Accounting*, (ICAS). Edinburgh.

- Ezzamel, M., N. Hyndman, A. Johnsen, I. Lapsley and J. Pallot (2005a) "Conflict and Rationality: Accounting in Northern Ireland's Devolved Assembly, *Financial Accountability & Management*, Vol.21, No.1, pp.33-56.
- Ezzamel, M., N. Hyndman, A. Johnsen, I. Lapsley and J. Pallot (2005b) "Accounting, Accountability and Devolution: A Study of the Use of Accounting Information by Politicians in the Northern Ireland Assembly's First Term", *Irish Accounting Review*, Vol.12, No.1, pp.39-62.
- Fletcher, C. (1989) *Government Accounting*, Institute of Chartered Accountants of Scotland (ICAS), Edinburgh.
- Geroski, P.A., (2000) Models of technology diffusion, *Research Policy*, Vol. 29, pp603-625
- Greenhalgh, T., G.Robert, P. Bate, O. Kyriakidou, F. Macfarlane and R. Peacock (2005) *Diffusion of Innovations in Health Service Organisations: A Systematic Literature Review*, Basil Blackwell.
- Guthrie, J., O. Olsen and C. Humphrey (1999) "Debating Developments in New Public Financial Management: The Limits of Global Theorising and Some New Ways Forward", *Financial Accountability & Management*, Vol.15, Nos. 3 and 4, pp.209-228.
- Heald, D. and G.Georgiou (1995) Resource Accounting: Valuation, Consolidation and Accounting Regulation, *Public Administration*, Vol. 73, pp371-379
- Heald, D. (2005) The Implementation of Resource Accounting in UK Government, *Financial Accountability & Management*, Vol.21 (2) pp 163-190
- Her Majesty's Treasury (HMT) (1994) *Better Accounting for the Taxpayer's Money: The Government's Proposals*, CM2626, HMSO.
- Her Majesty's Treasury (HMT) (1995) *Better Accounting for the Taxpayer's Money, The Government's Proposals, Resource Accounting and Budgeting in Government* (CM2929), July, HMSO.
- Her Majesty's Treasury (HMT) (2001) *Managing Resources: Full Implementation of Resource Accounting and Budgeting*, London, April.
- Hood, C. (1991). A public management for all seasons? *Public Administration*, Vol. 69, No. 1, pp. 3-19.
- Hood, C. (1995). The New Public Management in the 1980s: Variations on a Theme. *Accounting, Organizations and Society*, Vol. 20, No. 2/3, pp. 93-109.
- Jackson, A., and I. Lapsley (2003) The diffusion of accounting practices in the new 'managerial' public sector, *International Journal of Public Sector Management*, Vol. 16 (5), pp359-372
- Johannessen, A., B. Olsen, and G. T. Lumpkin (2001) Innovation as newness: what is new, how new, and new to whom? *European Journal of Innovation Management*, pp21-31
- Lapsley, I. (1996), 'Reflections on Performance Measurement in the Public Sector', in I. Lapsley and F. Mitchell (eds) *Accounting and Performance Management: Issues in the Private and Public Sectors*, Paul Chapman, London.
- Lapsley, I., R. Mussari and G. Paulsson (2009) On the Adoption of Accrual Accounting in the Public Sector: A Self-evident and Problematic Reform, *European Accounting Review*, Vol.18 (4) pp719-723

- Lapsley, I. and H. Wright (2004) The diffusion of management accounting innovations in the public sector: A research agenda, *Management Accounting Research*, Vol.15 pp355-374
- Likierman, A. and P. Vass (1984) *Government Expenditure Statements: Proposals for Reform*, Association of Certified Accountants.
- Likierman, A. and P. Creasey (1985) *Public Expenditure Documents Presented to Parliament: Evaluation of Changes in Form and Structure, 1984-85*, Certified Research Report 4, Chartered Association of Certified Accountants, London.
- Likierman, A. (2000), 'Changes to Managerial Decision-taking in UK Central Government', *Management Accounting Research*, Vol. 11, No. 2, pp. 253-261.
- Lynch, Peter (2001). *Scottish Government and Politics*. Edinburgh: Edinburgh University Press.
- Malmi, T. (1999) Activity –based costing diffusion across organisations: an exploratory empirical analysis of Finnish firms, *Accounting Organizations and Society*, Vol.24 (8) pp649-672
- Mellett, H. (2002) The Consequences and Causes of Resource Accounting, *Critical Perspectives on Accounting*, Vol. 13 (2), pp231-254
- Midwinter, A. (2005) "Budgetary Scrutiny in the Scottish Parliament: An Advisor's View", *Financial Accountability & Management*, Vol.21, No.1, pp.13-32.
- National Audit Office (NAO) (1986) *Financial Reporting to Parliament*, Report by the Comptroller and Auditor General, July 1986, HMSO.
- Newberry, S. and J. Pallot (2004), Freedom or Coercion? NPM Incentives in New Zealand central government departments, *Management Accounting Research*, Vol.15(3) pp 247-266
- Paulsson, G., (2006) Accrual Accounting in the Public Sector: Experiences From the Central Government of Sweden, *Financial Accountability & Management* , Vol. 22 (1), pp 47-62
- Rogers, E., (1983) *Diffusion of Innovations* 3<sup>rd</sup> edition, The Free Press
- Rogers, E., (1995) *Diffusion of Innovations* 4<sup>th</sup> edition, The Free Press
- Rogers, E., (2003) *Diffusion of Innovations* 5<sup>th</sup> edition, The Free Press
- Rogers, E., (2004) A Prospective and Retrospective Look at the Diffusion Model, *Journal of Health Communication*, Vol.9, Supplement 1, pp13-19
- Scottish Executive, (2000a) *Investing In You: The Annual Expenditure Report of the Scottish Executive*, Stationery Office, Edinburgh.
- Scottish Executive, (2000b) *Making A Difference for Scotland: Spending Plans for Scotland 2001-02 to 2003-04*, Stationery Office, Edinburgh.
- Scottish Office, (1998a), *Report on the Consultative Steering Group on the Scottish Parliament*, Stationery Office, Edinburgh.
- Scottish Office (1998b), *Report on the Financial Issues Advisory Group*, Stationery Office, Edinburgh.
- Scottish Parliament (2000), *Finance Committee 16<sup>th</sup> Report 2000*, Session 1 (2000) SP Paper 236, Stationery Office, Edinburgh.
- Scottish Parliament (2001), *Finance Committee 7<sup>th</sup> Report 2001, Resource Accounting and Budgeting*, Session 1, SP Paper 357, Edinburgh.
- Select Committee on National Expenditure (1918), Report on Reform of Government Accounting, cited in C. Fletcher (1989), *Government Accounting*, (ICAS), Edinburgh.

- Swan, J.A., and S. Newell (1995) The role of professional associations in technology diffusion, *Organisation Studies* Vol.16 (5), pp847-874
- Van de Ven, A.A.,(1986) Central problems in the management of innovation, *Management Science* Vol.32, No.5, pp590-607
- Watkins, D. (2007) “Evolution of Accrual Accounting in the UK Central Government”, Scuola Superiore della Pubblica Amministrazione, Rome, 26th September.
- Wynne, A.,(2007) Is the move to accrual based accounting a real priority for public sector accounting? *Public Fund Digest*, Vol.VI, No.1
- Wynne, A., (2008) Accrual Accounting for the public sector – A fad that has had its day? *International Journal of Governmental Financial Management*, pp117-132